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C O N F I D E N T I A L ASUNCION 000295

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STATE FOR WHA/BSC MDRUCKER, BFRIEDMAN AND MDASCHBACH,
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TAGS: ECON PREL EAGR EPSC PA
SUBJECT: PARAGUAYAN UPDATE ON ITAIPU NEGOTIATIONS

REF: ASUNCION 00042

Classified By: DCM Michael J. Fitzpatrick; reasons 1.4 (b) and (d).

¶1. (SBU) The Paraguayan government confirmed May 8 that President Fernando Lugo's May 7 meeting with Brazilian President Inacio Lula about Itaipu bi-national dam ended without any agreements. In more than two-and-a-half hours of discussion, Paraguay maintained its key negotiating points about fair price, freedom to commercialize excess electricity, and debt restructuring (reftel). According to Paraguayan press reports, although Brazil initially expressed willingness to explore different compensation mechanisms for Paraguay's electricity surplus, it contended in the meeting that per the statutes of the 1973 Itaipu Treaty, revisions are only possible after 2023, when the treaty is set to expire. Regarding the debt restructuring issue, the Paraguayan press reported that Brazil maintained that they paid for the entire construction of Itaipu and Paraguay must pay its share. The next bilateral meeting on Itaipu will be at the ministerial level and is scheduled for June 10-15 in Paraguay.

¶2. (SBU) Days before the Presidential meeting, the Paraguayan press reported Brazil made several counter-offers that Paraguay refused. The offers included: advanced payments for future electricity transfers; a refinancing of Itaipu's debt by extending the maturity of outstanding loans; and up to 2 billion USD in soft loans to finance the construction of a transmission line from Itaipu to Asuncion.

¶3. (C) Brazilian Embassy Political Counselor Ricardo Ayrosa told Emboff May 8 that the negotiations did not result in anything because the countries' positions are far apart, and Brazil was not surprised by this outcome. He said President Lugo is taking a more pragmatic view, and is aware of Paraguay's limitations. Ayrosa thought Paraguay's main negotiator Ricardo Canese and Foreign Minister Lacognata, however, were pushing Lugo to maintain a hard negotiating position. Ayrosa said Paraguay's strategy is very risky, and that Lugo loses no matter what. If Lugo backs down now, he will be criticized for not holding the line; and if he goes forward, he will likely fail. Ayrosa also said Paraguay's expectations are way too high, and identified the Paraguayan press as being particularly unhelpful in that regard. According to him, Brazil will continue discussions in Paraguay, and hope to have something before the July MERCOSUR Summit in Asuncion, which Lula will attend.

¶4. (C) COMMENT: Paraguay's negotiating team counts on Lugo's personal relationship with Lula to advance its demands and compensate for the country's limitations (reftel). Brazil, as expected, is making counter-offers to steer the negotiation in its direction, so the negotiations have stalled, and Paraguay's room for maneuver is limited. As Lugo and his team uncompromisingly push forward, the risk of failure increases

-- as does the likelihood of a political fallout for Lugo if he cannot soon show concrete results. END COMMENT.

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